



THE DEPUTY SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

Executive Registry

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16 AUG 1984

The Honorable John N. McMahon
Deputy Director, CIA
Central Intelligence Agency
Washington, D.C. 20505

Dear Mr. McMahon:

For the past three and one-half years, we have made substantial investments in rebuilding our defenses. The American taxpayer deserves to know about the return on those investments.

To help you answer that question, the attached background paper summarizes in several key areas our progress in rebuilding a strong and ready defense. As you can see, our defense investment is paying dividends.

Sincerely,

William H. Taft, IV

Attachment



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DEPARTMENT OF DEFENSE PROGRESS REPORT

The Challenge

For three and one-half years Americans have been investing in the Reagan defense program to redress the neglect of the 1970s and rebuild the defenses necessary to preserve deterrence.

Because the Soviets had conducted an enormous arms buildup while U.S. defense spending decreased 20% during the decade of the 1970's, we inherited a double burden of allocating funds quickly to restore the readiness of our armed forces, while also making long term investments to modernize our obsolete military equipment.

-- Our defense investments added about \$75 billion in constant FY 1985 dollars to the total obligational authority projected for FY 1981-1984 by the Carter Administration.

The Results

Restored Leadership: We are rebuilding the means to defend our vital interests and meet our global commitments. No longer do we hear that America is unable to act decisively, or to offer leadership in the free world.

Personnel Turnaround: Improved pay and benefits, increased training, and a restored sense of pride in wearing the nation's uniform have given us highly qualified, confident servicemen and women and military units with a high state of morale and discipline.

Improved Military Posture - Our on-going programs are building:

- Readier forces, better able to sustain themselves in combat;
- Nuclear forces modernized to provide a more stable strategic deterrent;
- Modern, well-equipped ground and tactical air forces to maintain the technological edge needed to offset the overwhelming numerical superiority of increasingly sophisticated Soviet armed forces;
- Maritime forces more capable of defending our sea lanes throughout the globe; and
- Mobility capabilities better able to support our combat units' global transportation needs.

Greater Efficiency: Sweeping reform of defense management is eliminating deep-rooted procurement problems we inherited to ensure we get more for each defense dollar spent.

Progress Report

PEOPLE: When President Reagan took office, declining recruitment and a massive exodus of experienced personnel from the armed forces led many to claim that the volunteer concept was a failed experiment, that we would have to return to conscription.

Recruiting: In every year since 1981 each military service has met or exceeded its enlistment goal.

-- Last year was the Army's best recruiting year in recent history.

-- Overall, the percentage of recruits holding high school diplomas has climbed from 68% in FY 1980 to an estimated 92% in FY 1984, giving us better educated men and women to operate modern sophisticated technical equipment.

Retention: We have stemmed the tide of the exodus of experienced service personnel.

-- First term reenlistments have jumped by 35% since 1980. Last year, both the Navy and Air Force had record high reenlistment rates--68% and 79% respectively.

-- We continue to make investments to maintain retention as the economy improves. The military must train and promote from within; senior personnel cannot be hired off the street. Longer military careers promote stability, reduce training and recruiting costs, and strengthen leadership.

Reserves: Selected reserve strength exceeded one million in 1983 for the first time since 1961--an increase of 18% since FY 1980. This not only enhances our readiness to meet a crisis but also strengthens the bond between the active duty military and the rest of the citizenry.

Training: To ensure our soldiers can be ready on a moment's notice and to challenge the higher caliber soldiers serving us today, we are providing our combat forces with more resources and opportunities for realistic training.

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- The Air Force now provides each of its tactical aircrews almost 20 hours of flying time per month-- up from 16 hours in FY 1980 and a low of 13 hours in FY 1978. Navy aircrews now fly almost 23 hours per month.
- Navy ships are now steaming at an average rate of 34.9 days per quarter, up from 32.4 days in FY 1980.
- The Army has increased its rotations to the National Training center from 16 battalions in FY 1982 to 24 this year, giving 50% more troops an opportunity to participate in some of the most realistic training we have ever offered to our soldiers.

STRATEGIC MODERNIZATION: When President Reagan took office, our newest long-range bomber was 19 years old. Our newest strategic submarine was 14 years old and did not have missiles capable of destroying hardened Soviet targets. Our land-based missiles were threatened by huge, new, accurate Soviet ICBMs, while our own missiles lacked the accuracy and destructive force we needed for continued deterrence.

Since 1981, this Administration has vigorously pursued a plan for maintaining deterrence by modernizing the nation's aging nuclear forces, while stressing the importance of arms reductions with the Soviet Union. Overall, nearly half of our strategic weapons will be deployed aboard modern systems by the end of the decade.

- Three new Trident submarines are already at sea, a fourth is nearing completion, and seven more are under construction. Four years ago this program was plagued with skyrocketing costs and slipping schedules; now it is back on track.
- The B-1B strategic bomber is now in production. The the first squadron of 15 aircraft will enter service in 1986--ahead of schedule and, if current trends continue, below cost.
- We have completed five successful tests of the PEACE-KEEPER (MX) missile, and the first deployment is planned for late 1986. Consistent with the recommendations of the bipartisan Scowcroft Commission, the PEACEKEEPER deployment, and future deployment of a new small ICBM, will enhance stability by breaking the Soviets' monopoly on the capability to attack hardened, time-urgent targets.

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- We have begun work on a long-term research program to find a way to defend against nuclear ballistic missiles, an effort that offers the greatest promise for security and stability since the dawn of the nuclear age.

CONVENTIONAL MODERNIZATION: In 1981 we faced a major shortfall in weapons and equipment, and much of what we did have was aging and increasingly obsolete compared with new Soviet hardware. Our qualitative edge, which helped to offset the enormous numerical superiority of Soviet forces, had eroded. We have embarked on a long-term modernization program to restore our technological superiority.

Army: We are providing our armored battalions with faster, more lethal and survivable M-1 tanks--tanks that can fire accurately on the move, day or night. We added 500 M-1s to the FY 1981-1984 procurement plan of the previous Administration; when delivered, they will have increased our FY 1980 tank inventory by 25%.

- To improve our tactical mobility and anti-armor capability, we added 550 more Bradley Fighting Vehicles.

Navy: From a fleet of 479 deployable battle force ships at the end of FY 1980, the Navy's fleet will have grown to 525 ships by the end of FY 1984 and a force of 600 deployable ships, including 15 carriers, by the end of the decade.

- With this expanded fleet we can both meet the challenge posed by the transformation of the Soviet Navy to a "bluewater" force capable of projecting power far beyond Soviet borders and protect the vital sea lanes we rely on for trade and communication with our allies.

Air Force: Because we are severely outnumbered on the ground our Western Alliance depends heavily on tactical air as a counterweight.

- To maintain our air superiority in the face of major improvements in Soviet and Warsaw Pact air forces, we will have acquired in FY 1981-84 some 700 more modern tactical aircraft for the Air Force, which, when delivered, will double the FY 1980 inventories of these aircraft.

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- F-15 and F-16 combat effectiveness will also be enhanced by new, more durable and easily maintained engines. Due to tough competition, those engines were purchased at considerably less cost than originally anticipated, will come with impressive warranties, and have provisions for future competition for replacement spares.

Mobility: Since this Administration took office, our mobility capabilities have increased by about 35%. By the end of the decade, airlift capacity will have increased by 80%, sealift by 110%, and the amount of prepositioned materiel by 150%.

- Airlift: By the end of the decade we will have added 50 C-5B cargo aircraft and 44 KC-10 tankers to the fleet and modified 19 commercial aircraft to carry military cargo in an emergency. C-17 cargo aircraft procurement will start later this decade.
- Sealift: We have invested more to improve sealift in the past three years than in all the years since World War II.

READINESS: Increased military compensation, training, and materiel funding have dramatically improved the ability of our forces to respond rapidly and effectively in a crisis.

- Operational and Maintenance Support: During FY 1980-1984 we increased funding almost 25% in constant dollars for supplies needed for daily operation and maintenance of our forces.
- Navy ships rated "fully" or "substantially" ready have increased 25 percentage points since January 1981.
- Projected FY 1983 mission-capable rates for fighter and attack aircraft are 9 percentage points higher than FY 1980 levels in the Navy and 5 percentage points higher in the Air Force.
- Increases in USAF spare parts stocks for tactical aircraft led to a 60% increase between FY 1981 and FY 1983 in the number of fully supported combat sorties that could be flown in the early phases of a conflict.

SUSTAINABILITY: In 1981, stocks of ammunition and spare parts were dangerously low, inhibiting the "staying power" of our forces in combat.

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- Although building ammunition fuel and equipment stocks is a slow and expensive process, between FY 1983 and FY 1986, stocks of war reserve munitions are projected to grow steadily--by 14% for the Army, 58% for the Navy, 62% for the Air Force, and 24% for the Marine Corps.
- Only by the end of the decade, however,--with continued funding support from Congress--will we begin to achieve a sustainability posture that fully deters an adversary from beginning aggression in hopes of outlasting us.

MANAGEMENT REFORM: We are modernizing our forces in the most efficient and economical way possible.

Finding the Problems: Dedicated efforts of DoD auditors and other employees have uncovered longstanding management and procurement problems. The new DoD Inspector General's office is coordinating the campaign against waste and inefficiency.

- During FY 1982 alone, 18,467 internal audits identified a total potential savings of \$1.6 billion through greater efficiency.
- The Defense Hot Line has produced thousands of calls and suggestions that are being acted on.
- During FY 1984 aggressive DoD-Justice prosecution resulted in 657 convictions and \$14 million in fines.
- Debarments and suspensions of unscrupulous contractors have almost doubled in the past year and quadrupled since 1980.

Solving the Problems:

- Using a task force approach, the DoD Council on Integrity and Management Improvement (DCIMI) coordinates the implementation of management reform programs and actions.
- Our Acquisition Improvement Program now focuses on six areas: program stability, multi-year procurement, economic production rates, realistic budgeting, improved support and readiness, and increased competition.
 - Between FY 1982-84 we proposed 38 multi-year programs to Congress; 23 were approved, resulting in an estimated \$3.8 billion savings.

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We have submitted 12 new multi-year programs in the FY 1985 budget, which should result in a further \$1.1 billion cost avoidance.

--- More economic production rates in the FY 1983-84 budgets will save an estimated \$2.6 billion during FY 1982-89.

-- Improved Spare Parts Management, involving a DoD inventory of almost 4 million different items, is a complex and massive management challenge. Secretary Weinberger's 10-point program is already working--revamping old contracts to allow competition, challenging high prices, obtaining refunds, continuing audits, and enhancing competition.

--- The DoD IG just completed the largest spare parts audit in DoD history and confirmed that these reforms are on the mark.

--- As one example, the famed stool-cap, whose original four-digit price was challenged by an alert Air Force Sergeant, is now being obtained for 31 cents. We received a full refund and gave the Air Force Sergeant a \$1,100 cash award.

-- The same commitment from our DoD employees to identify wasteful practices and solve them is leading to similar reforms of Defense property disposal practices.

-- Increasing competition has become a key element of all our reform efforts--in acquisition as well as spare parts management.

--- "Competition Advocates" are now working in all buying commands to challenge all non-competitive purchases. As a result, competition in aircraft spares has tripled. To assure continued competition, new contracts include provisions designed to provide the data necessary to seek second sources of supply in purchasing parts.

FINAL NOTE:

The Reagan Administration has used its defense investments effectively to redress serious deficiencies in our military posture. We are a much more capable and ready

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fighting force in 1984, and we are moving toward a more stable conventional and strategic deterrent. But maintaining the military balance, like any other long-term investment, requires a determined and sustained effort.

Calls for retrenchment are once again being heard, even though the defense budget has already borne large reductions in the effort to cut federal deficits (relative to our earlier projections, total defense obligational authority has been cut back \$75 billion in current dollars since FY 1983 alone).

-- The most recent cuts bring the revised FY 1985 budget down to \$292.8 billion--a reduction of almost \$30 billion in little more than a year's time. Further cuts in defense spending would undermine the progress of the last three years and repeat the "stop-and-go" spending patterns that have driven up weapon system costs in the past.

If we are allowed to continue on the path we have set, we can look forward to a substantially strengthened defense posture, with far less risk that our adversaries will miscalculate our will and our capabilities to preserve the peace.

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